

NEWARK  
ECONOMIC  
DEVELOPMENT  
CORPORATION



NEWARK  
OVERALL  
ECONOMIC  
DEVELOPMENT  
PROGRAM  
COMMITTEE

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December 5, 1989

Members of the Municipal Council

Re: Blue Cross/Blue Shield/Proposed Headquarters  
and Fox-Lance Extension

Dear Municipal Council Members:

For over six years the City of Newark has been trying to attract Blue Cross/Blue Shield to consolidate its corporate workforce back into Newark. We have attempted to take the potential one million square foot new development and find a site for it in at least seven different locations in downtown Newark. The company as you know, has had to appeal to the legislature in recent years to increase rates to meet enormous operating expenses that have increased in recent years.

Blue Cross/Blue Shield wishes to consolidate to save on labor costs and to be near its workforce which has been dominately urban, heavy in secretary and clerical, and a good perentage of which are currently Newark residents. Most of their facilities are now in Florham Park and this consolidation would mean the first major relocation to Newark by an operating company in 35 years.

In spite of all the incentives and potential corporate cooperation and developers who made proposals to the company a location and a new building could not be done in Newark and meet the rents that Blue Cross/Blue Shield was willing and able to pay. Recently, through a competitive process Hartz Mountain Development Company was able to reach an agreement with Blue Cross/Blue Shield to build a 750,000 sq. ft. building first phase with an additional 300,000 + sq. ft. to be built second phase on the four acre site immediately east of the railroad on Raymond Blvd. upon which they plan to construct a new headquarters for New Jersey Transit. In the last three years, discussions and

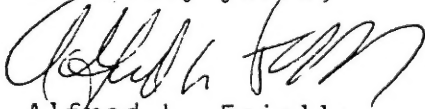
negotiations with the company over their headquarters, the 1991 expiration of the Fox-Lance Tax Abatement at their current headquarters at 33 Washington Street has been of utmost concern. As any good businessman can understand, it would make no sense to move 2500 employees to Newark, have a new corporate headquarters built, pay millions of dollars in taxes and then find that the Washington Street building which they intend to occupy in its entirety is part of this consolidation had entered the tax rolls at an assessment that was not attainable nor defensible.

There have been numerous discussions between the administration, the tax assessor and the company about what will happen in 1991. Unfortunately, those have not resulted in any satisfactory arrangement. The current assessment carried on the building was its original total project cost of \$16,600,000. The company's discussions with the tax assessor resulted in an a realization that their taxes could go to as much as \$2.4 million from the current \$365,000 in annual payments.

While the City cannot agree to a Fox-Lance extension until September 1990, what would be proposed is a passage of an ordinance allowing for extensions of Fox-Lance Tax Abatements as authorized by the State Statute. The company would immediately apply as per the proposed attached Exhibit I for a Fox-Lance extension which would provide for 3% of project cost as a service charge for the first five years of the extension and 4% of project cost for the next five years of the extension and 5% for the last five years. The Exhibit clearly shows that this will result in less than the full taxes that one might estimate will be paid to the City if the property returned to the tax rolls. However, taking into account the 20% of revenue paid to the County on ad valorem taxes, the differential between the service charge and the Fox-Lance extension would be as little as \$2.8 million for fifteen years.

The enclosed summary and financial benefits shows that if the headquarters is built and Fox-Lance extension is granted, \$38 million of net gain will result to the City of Newark between the headquarters building and the New Jersey Transit building.

Sincerely yours,



Alfred L. Faiella

**Benefits of New Corporate  
Headquarters for Blue Cross-Blue Shield of New Jersey#  
to be built by Hartz Mountain Industries**

- \* Location: Between Raymond Blvd., Passaic River  
east of Penn Station
- \* Height: 12 stories over 3 levels of parking
- \* Size proposed structure: 725,000 square feet with  
potential of added 480,000 square foot expansion
- \* Current assessment: \$287,100
- \* Current taxes: \$44,127.27
- \* Proposed abatement to be approved:
  - Basis will be 15% of annual gross revenues
  - Years 1 through 5: \$ 7,340,625
  - Years 6 through 10: \$ 8,971,875
  - Years 11 through 15: \$10,059,375
  - TOTAL \$26,371,875
- \* 1400-car parking garage
  - PILOT basis total project  
cost (\$9 million) \$180,000 per annum
  - Total payment years 1-15 \$2,700,000

Total annual payments garage and building for fifteen  
years would be \$29,071,875

# to be part of 4.9 acre site to include 300,000 sq. ft. 9-story  
office building being leased to New Jersey Transit.

## Expiration of Fox-Lance Tax Abatement September 30, 1991

- \* Property: 29-39 Washington Street
- \* Owner: Blue Cross-Blue Shield of New Jersey
- \* Height: 18 stories
- \* Size: 350,000 square feet
- \* **Current Assessment:**
  - Land: \$ 212,000
  - Building: \$16,390,000
- \* **Current Taxes and PILOT:**
  - Land:  $\$212,900 \times .1537 = \$ 32,722$
  - Improvements only \$332,756
  - Total annual payment \$365,478
- \* **Original Abatement approved, June 1969**
  - Basis of abatement was 2% of total project cost
  - Transferred to Blue Cross-Blue Shield, 12/86
- \* **Abatement expires September 30, 1991**
  - At \$14.46 rate, annual tax payment would be \$2.4M
  - Full taxes would = \$6.85 per square foot
- \* **Blue Cross-Blue Shield extension proposal**
  - Maintain current 1,300 employee base in Newark
  - Occupy additional 55,000 s.f. as leases expire
  - Invest \$1.2-2.0 million in improvements
  - Pay \$9,960,000 service charge over 15 year extension
    - Compared to 15 yr. total of \$4,950,000:1976-1991
    - Proposed extension would increase
      - . annual PILOT from 2% to 5%
      - . payment per square foot from \$.94 to \$2.37

# EXHIBIT I

## COMPARISON OF FOX-LANCE SERVICE CHARGES TO AD VALOREM FOR 33 WASHINGTON STREET

### Assumptions:

Original Construction Cost Plus Capital Improvements	\$16,600,000
Assumed Assessment Upon The Expiration	\$ 7,000,000
Tax Rate (1989)	\$14.46 per \$100.00
Escalation Factor	5.0% per year
Service Charge - Years 1992-1996	3.0% per year-City Receives 100%
Service Charge - Years 1997-2001	4.0% per year-City Receives 100%
Service Charge - Years 2002-2006	5.0% per year-City Receives 100%
Ad Valorem Receipts	80% Retained by City

<u>SERVICE CHARGE UNDER FOX LANCE</u>				<u>AD VALOREM</u>	
Year	Serv. Chg. %	Annual	Cumulative	Annual	Cumulative
1992	3.0%	\$498,000		\$1,012,200	
1993	3.0%	\$498,000		\$1,012,200	
1994	3.0%	\$498,000		\$1,012,200	
1995	3.0%	\$498,000		\$1,012,200	
1996	3.0%	\$498,000		\$1,012,200	
			\$2,490,000	\$1,012,200	
1997	4.0%	\$664,000		\$1,062,810	\$5,061,000
1998	4.0%	\$664,000		\$1,062,810	
1999	4.0%	\$664,000		\$1,062,810	
2000	4.0%	\$664,000		\$1,062,810	
2001	4.0%	\$664,000		\$1,062,810	
			\$3,320,000	\$1,062,810	
2002	5.0%	\$830,000		\$1,115,951	\$5,314,050
2003	5.0%	\$830,000		\$1,115,951	
2004	5.0%	\$830,000		\$1,115,951	
2005	5.0%	\$830,000		\$1,115,951	
2006	5.0%	\$830,000		\$1,115,951	
			\$4,150,000	\$1,115,951	
City Revenue with Fox Lance					\$5,579,755
Service Charge			\$9,960,000	Total Taxes Without Fox Lance \$15,954,805	
				Portion Retained by City 80% \$12,763,844	

### Summary of Financial Benefits

City revenue with Fox-Lance extension on  
33 Washington Street

\$ 9,960,000

City revenue without Fox-Lance

12,763,844

Net loss to City with Fox-Lance  
extension on 33 Washington Street

\$(2,803,844)

PILOT anticipated from construction  
of new Blue Cross-Blue Shield  
Headquarters, NJ Transit Offices,  
and Parking Garage

\$40,884,375

Blue Cross-Blue Shield Building	\$26,371,875
NJ Transit Building	11,812,500
Parking Garage	<u>2,700,000</u>

Sub-Total

\$40,884,375

NET GAIN to City with New Blue Cross-  
Blue Shield Headquarters and NJ  
Transit Building plus parking

\$38,080,531

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### Summary of Benefits and Special Reasons

- Construction of a major office building of 750,000 square feet;
- Retention of thirteen hundred (1300) existing jobs;
- It will return a total of twenty five hundred (2500) new jobs to the City of Newark;
- Produce thousands of employment opportunities, in the future, that will be very relevant to Newark residents;
- Physically locate approximately twenty-five hundred (2,500) of these work opportunities within walking distance of the City multi-modal transportation center (Penn Station);
- It is a firm that is in a growth position servicing the rapidly growing health services industry which is essential to our economic health;
- Precendent for relocation of corporate headquarters to the City of Newark;
- Strengthen Newark's image as a City well suited for corporate headquarters;

## Policy Recommendations

1. For owners of tax-abated property in the City of Newark seeking an extension of an abatement beyond fifteen years, a prerequisite for considering an extension shall be: Satisfactory evidence of legally-binding commitments and a construction permit to construct or substantially rehabilitate an existing structure at least equal to or no less than 80% of the gross square footage of the structure being proposed for an extension under Fox-Lance.

The effective date of any extension of Fox-Lance tax abatement shall be upon actual commencement of construction.

2. The purchase of certificates of participation, bonds, or securities issued or approved by the City of Newark to amortize the cost of constructing public infrastructure or amenities serving the area or designated development district within which the property is located in an amount equal to or not less than 80% of the fifteen-year total of the difference between the PILOT and full taxes.

### Purpose of policy's

The purpose of this policy is to assure that the City's commercial office development market remain vibrant and expanding as abatements on larger office buildings expire.